

# LEGISLATIVE AUDIT COMMISSION



Review of  
Illinois Housing Development Authority  
Year Ended June 30, 1998

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**REVIEW: 4094**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**YEAR ENDED JUNE 30, 1998**

**FINDINGS/RECOMMENDATIONS - 6**

**PARTIALLY ACCEPTED - 2**  
**ACCEPTED - 3**  
**IMPLEMENTED - 1**

**REPEATED RECOMMENDATIONS - 3**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 11**

This review summarizes the audit of the Illinois Housing Development Authority for the year ended June 30, 1998, filed with the Legislative Audit Commission April 27, 1999. The auditors performed a financial and compliance audit in accordance with State law and the requirements of the Federal Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements of the Authority are fairly presented.

A bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate governs the Illinois Housing Development Authority. The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the state. This goal is accomplished through several programs. The Mortgage Loan Program and the Affordable Housing Bond Program provide mortgage financing at rates lower than those available from commercial lenders for housing developments meeting Authority criteria. Through the Homeowner Mortgage Purchase Program, the Authority purchases mortgage loans on which it provides below market rate financing from certain institutions, which have made home purchase loans available to eligible borrowers. The Authority also provides technical and marketing assistance to sponsors of housing for occupancy by persons or families of low to moderate income, serves as the State administrator for Federal Low Income Housing Tax Credits, and through its Partnership and Financial Assistance Factor Earnings Program, makes loans from its Administrative Funds at below market rates to such groups.

The Authority also is designated the administrator of the Illinois Affordable Housing Program, which is funded by the Illinois Affordable Housing Trust Fund, with funds generated by an increase in the State real-estate transfer tax collected by the Illinois Department of Revenue. The Illinois General Assembly appropriates the funds to the Illinois Department of Revenue. In accordance with State statute, the Authority directs funds to make grants, low or no interest mortgages, or other loans to acquire, construct, rehabilitate, develop, operate, ensure and retain affordable single-family and multi-family housing for low income households. In addition, the Authority has been designated as the statewide administrator of the HOME program. Under this program, \$20.8 million in

federal fiscal year 1998 was allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

The bonds and notes outstanding as of June 30, 1998 are general obligations of the Authority, with the exception of Homeowner Mortgage Revenue Bonds, Affordable Housing Program Trust Fund Bonds, and Multi-Family Variable Rate Demand Bonds, which are special limited obligations of the Authority. The full faith and credit of the Authority are pledged for payment of general obligation bonds and notes. The Authority has the power to have up to \$3.6 billion of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 1998, amounts outstanding against this limitation were approximately \$2.3 billion.

Some developments financed by the Authority are eligible for federal subsidies for interest and/or rents. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investments securities, and other administration fees. No State appropriations are received by the Authority and no State tax dollars are provided directly to the Authority, except as a partial reimbursement of expenses related to the administration of the Affordable Housing Trust Fund.

Except for a portion of the Affordable Housing Trust Fund and HOME Program Funds, all funds of the Authority are held outside of the State treasury in various banks and financial institutions.

Mr. John N. Varones was Director of the Illinois Housing Development Authority during the audit period. Mr. Michael P. Rose was appointed Acting Executive Director in January 1999. Previously, Mr. Rose served as Deputy Executive Director of the Authority.

The average number of full-time employees is as follows:

	Fiscal Years		
	1998	1997	1996
<b>Financial and Computer Services</b>	42	42	44
<b>Human Resources, Administration and Legal</b>	24	25	28
<b>Director's Office and Housing Programs</b>	99	100	99
<b>TOTAL</b>	<b>162</b>	<b>167</b>	<b>171</b>

Operating expenses of the Authority increased by \$495,000 in FY98 compared to FY97, partially due to an average salary increase of 3.6%, but more so due to an increase in financing costs within the Single Family Mortgage Revenue Program.

The Authority's administrative costs include the following employee benefits: \$4,964 for the employee holiday reception; and \$2,000 for employee retirement recognition parties. The Authority's current policy allows for amounts to be spent on food and gifts for retirement of individuals with a minimum of 10 years of service.

## **Financial Statements**

Appendix A provides the market value of cash and investments at June 30, 1998. The Authority's cash and investments totaled \$953,172,089, compared to \$792,247,646 one year earlier. The preponderance of the investments is fixed rate demand repurchase agreements. The demand repurchase agreements have one-day demand of funds provisions exercisable at the Authority's option. At June 30, 1998, approximately \$286 million was invested in short-term agreements at rates ranging from 5.29% to 5.75%. Approximately \$246 million was invested in long-term agreements at rates ranging from 5.0% to 8.0%. Investments summarized in Appendix A are stated at fair value.

Appendix B provides a balance sheet for the Authority's funds as of June 30, 1998 and 1997. The balance sheets stood at \$2,700,577,704 at June 30, 1998 and \$2,551,307,761 at June 30, 1997. Current assets increased by \$169,843,561 during FY98.

Appendix C provides a summary of the Authority's revenues, expenditures, and changes in fund balance for the Authority's governmental or special revenue funds. These funds include the Illinois Affordable Housing Trust Fund and the HOME Program. Revenues less expenditures increased from \$21,351,215 in FY97 to \$34,139,939 in FY98.

Appendix D provides a summary of the Authority's revenues, expenditures, and changes in fund balance for the Authority's proprietary or enterprise funds. These funds include the Administrative Fund, the Mortgage Loan Program Funds, the Single Family Mortgage Revenue Program Funds, and the Affordable Housing Program Trust Fund Bond Funds. Net income increased from \$18,458,731 in FY97 to \$25,966,154 in FY98.

## **Accountants' Findings and Recommendations**

Condensed below are the six findings and recommendations presented in the audit report. Three of these were repeated from previous audits. The following recommendations are classified on the basis of information provided by Michael P. Rose, Acting Executive Director of the Illinois Housing Development Authority, in a letter dated May 7, 1999.

### **Partially Accepted**

- 2. Require management of each development to attend training on program compliance requirements regularly. Require management of the high-risk**

**developments to attend annually. Require new development management to attend training within the first three months. Hire additional EPO Officers to conduct site visits once each year.**

**Partially Accepted - concluded**

**Develop a policy detailing the disciplinary action to be taken if a development fails to comply with the procedures noted in the compliance policy. (Repeated-1989)**

**Findings:** Section 8 and Section 236 files at 20 high-risk developments lacked proper supporting documentation and contained numerous errors. Auditors visited the 20 highest risk developments (based on the Authority's risk ranking system) and reviewed 80 tenant eligibility forms (Form 50059) which is used to determine the Housing Assistance Payments (HAP's). Some of the deficiencies noted included:

- Certification procedures had not been performed on eight files resulting in an overpayment of \$324 by HUD;
- 22 files did not have an adjustment form for current income that increased by more than 5% from the prior year;
- 15 files did not have social security numbers for dependents over the age of six;
- 13 files lacked release of information forms;
- 17 files lacked the citizenship form;
- 15 files did not have asset amounts verified by a bank;
- 25 files lacked adequate support to verify income resulting in a \$1,500 overpayment by HUD;
- 15 files could not document medical expenses;
- 11 files had mathematical errors on Form 50059;
- Contract rent amount did not match the amount shown on the lease in one file; and
- 20 of the developments did not properly notify tenants of changes in their utility allowances and rent.

**Response:** The Authority concurs with the finding overall and will investigate the individual tenant file findings. The tenant files will be corrected and/or completed as necessary.

The Authority has instituted a requirement for on-site staff to attend a two-day training session every two years. The Authority will evaluate the one year training interval recommendation for staff at high risk developments and will likely recommend more frequent training. The Authority concurs with the idea of training new staff within three months, but believes that attendance within the first six months is more realistic.

The Authority does not agree with increasing staffing for the purpose of conducting site visit audits annually because the majority of developments do not need annual audits. The Authority will consider changing its auditing policy to include an annual audit of high risk developments.

- 3. Create and implement standard schedules to be used only for the waiting lists. Asset management officers and the EPO officer should monitor the development's compliance with waiting list procedures during the site visit. Create a disciplinary action policy if a development fails to comply with the waiting list procedures. (Repeated-1995)**

**Findings:** Waiting lists at some developments were not properly maintained, as required by HUD. Of the 20 waiting lists reviewed at the 20 highest risk developments, 10 developments were not in compliance with its established Tenant Selection Plan. Items noted were:

- Applicants were not kept at the top of the list when there was no availability for a particular unit;
- Procedures to ensure applicants were contacted and offered vacant units were not consistently applied;
- Applicants were not processed according to the Tenant Selection Plan; and
- Tenant Selection Plans were not approved for two developments.

According to the Authority, development management lacks adequate knowledge of requirements or is negligent in implementing procedures sufficient to ensure compliance with those requirements. Although the Authority requires developments to submit tenant selection plans for approval, current monitoring is not adequate.

**Response:** The Authority's Asset Management staff reviews management procedures (including tenant selection procedures) at the developments on a routine basis. Highest risk developments are visited and reviewed more frequently. Development staff turnover and inability/unwillingness of the owners and their agents to apply tenant selection procedures are not within the direct control of the Authority. The Authority believes it cannot do enough monitoring to ensure complete compliance.

However, the Asset Management staff will continue to focus on tenant selection issues with management to ensure that they are aware that non-compliance is unacceptable to the Authority. Training will continue to emphasize acceptable tenant selection procedures, using the details cited in the Audit as evidence of compliance "mistakes". Furthermore, Asset Management staff will emphasize waiting list procedures and site compliance during development reviews. Finally, the Authority will not execute new management agreements with management companies that are not in compliance with the waiting list procedures.

## Accepted

### 1. Review and revise current policy regarding applications:

- Change 10-day notification policy to “a reasonable time period”;

## Accepted - continued

- Create a standard notification letter reflecting the date, name of applicant and any missing data; and
- Place a copy of the letter in the file.

Continue to use the computer system to ensure a date is placed on all project summary sheets:

- Monitor application completeness; and
- When revising summary sheets, use original date summary was completed.

Adhere to policy and maintain documentation to support all site visits:

- Create a standard site visit form to document aspects of site visits; and
- Place a copy of the completed form in the file. (Repeated – 1997)

**Findings:** Illinois Affordable Housing Trust Fund loan application supporting documentation is incomplete and loans are not processed within 10 days, as required by Authority policies. The auditors tested 10 loan application files and noted delays regarding the initial notification to an applicant, completion of the project summary sheets, and documentation of sites. The following deficiencies were noted:

- The Authority could not document whether applicants were notified within 10 days that the application submitted was suitable for processing;
- The authority could not document whether a project summary sheet was prepared within three weeks of receiving an application. The project summary sheet is essential for the project to be reviewed by the Advisory Committee. The project summary should be prepared within three weeks of application receipt so that it can be scheduled for review by the Advisory Committee; and
- The Authority did not properly document site visits for projects. Authority policy requires a site visit to be performed as part of the loan application process.

**Response:** The Authority has extended the time requirement for its response to applications and has created a standard notification letter.

Dates are now being placed automatically on all project summary sheets. The frequency of changes to these sheets makes it impractical to always include the original summary. The summary sheet which is reviewed by the Authority's loan committee is filed.

The Authority agrees with the recommendation to adhere to its policy and maintain documentation to support site visits and is developing the recommended standard site visit form to document essential information.

**5. Follow the SAMS manual to report revenue bond activities to the Comptroller in a timely manner.**

**Findings:** The Authority failed to report some of its revenue bond activities to the Comptroller for the year ended June 30, 1998 on a timely basis, which could result in a misstatement of information.

**Response:** The Authority concurs and attempts to file all information required by the Comptroller's Office on a timely basis. The exceptions cited are a very small portion of the filings made by the Authority. The Authority is in the process of contacting the trustees of the four conduit bond issues cited to strongly remind them of their obligation to file payment notices on a timely basis.

**5. Monitor all programs and develop procedures to be followed when developments are not in compliance with internal policies and procedures. Require the management of each development to attend a training program on compliance requirements and maintaining the proper documentation for tenant files.**

**Findings:** The Authority's Home Program files did not have the proper income verification forms and were missing certain compliance reports. Auditors reviewed four files from four different developments and noted the following non-compliance with internal policies and procedures:

- One program had not submitted compliance information for FY98 even though the compliance information is due for multi-family programs by January 20<sup>th</sup>;
- Two files were missing verification of tenants' income; and
- One file had social security income verification that was over 90 days old.

The Authority relies on the developments to maintain adequate documentation to support the eligibility of tenants. The Authority is responsible for adequate monitoring procedures to ensure that sub-recipients are complying with the requirements of the program.

**Response:** The Authority concurs with the finding and will investigate the individual tenant file findings and make correction to the tenants' files and/or documents as necessary.

All HOME Programs are monitored and procedures describing what actions Authority staff are to take when a development has been found in non-compliance have been developed. A policy stating what disciplinary actions may be taken, when repeated or more severe non-compliance is found, will be developed. Such a policy may include more frequent on-site audits.

The Authority will require on-site staff at HOME developments to attend an Authority sponsored training session.

### **Implemented**

- 4. Revise formal security administration process to prevent unauthorized access to critical financial data. Grant access to application systems only for documented business reasons; monitor access in a timely manner to detect unauthorized access; and revoke access in a timely manner for users who no longer have a business need to access the system.**

**Findings:** The Authority's security administration processes and procedures are not consistently followed and could result in unauthorized access. The Authority does not have a computer security department to enforce access policies and procedures. The Auditors noted that certain terminated users were still allowed access to the Single-Family Loan application and General Ledger application.

**Response:** The Authority has implemented the recommendation. Each employee's access to the system has been rejustified; unauthorized access is monitored; and access to the system is now promptly revoked for users without a business need to use the system.